

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /086 W

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R 182047Z DEC 75

FM AMEMBASSY CARACAS

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C O N F I D E N T I A L CARACAS 13189

E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: STATUS OF MOBIL OIL SERVICE CONTRACT

REF: CARACAS 10123

1. THE OCCIDENTAL PETROLEUM COMPANY BRIBERY SCANDAL, WHICH SUSPENDED THAT COMPANY'S NEGOTIATIONS ON COMPENSATION FOR ITS SERVICE CONTRACTS, HAS HAD A FALL-OUT EFFECT ON MOBIL OIL COMPANY'S NEGOTIATIONS FOR COMPENSATION ON ITS SERVICE CONTRACT. RICHARD HOWE, MOBIL VENEZUELA PRESIDENT, EXPLAINED THE SITUATION TO THE PETROLEUM ATTACHE ON DECEMBER 10.

2. ACCORDING TO HOWE, BECAUSE OF THE OCCIDENTAL PETROLEUM CASE, THE MINES MINISTER WOULD NOT NOW APPROVE ON HIS OWN COMMERCIALITY OF THE MOBIL SERVICE CONTRACT EVEN I F ADDITIONAL WELLS CONFIRMED THAT THE OIL STRUCTURE MOBIL HAS FOUND IS COMMERCIAL BEYOND ANY QUESTION. HOWE BELIEVES THAT SUBSTANTIAL COMPENSATION FOR THE SERVICE CONTRACTORS, THROUGH THE PROCEDURE OF DECLARING THAT THEIR AREAS CONTAIN COMMERCIAL QUANTITIES OF OIL, IS NOW A DEAD ISSUE. THE MINES MINISTER HAS INDICATED TO MOBIL THAT THE COMPANY MUST NOW TAKE ITS CASE TO THE SUPREME COURT IF IT INSISTS UPON THE \$17 MILLION THAT THE COMPANY EXPECTED TO BE PAID IF THE SERVICE CONTRACT BLOCK HAD BEEN DECLARED COMMERCIAL.

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3. THUS, HOWE CONSIDERS THAT MOBIL HAS TWO REMAINING OPTIONS. ONE IS THE LEGAL CHALLENGE BEFORE THE SUPREME COURT, WHERE HOWE CONSIDERS THE PROSPECTS FOR A FAVORABLE VERDICT TO BE NIL. ALTERNATIVELY, MOBIL COULD WITHDRAW ITS FORMAL REQUEST THAT THE BLOCK BE DECLARED COMMERCIAL AND HAVE REFUNDED A \$2 MILLION PERFORMANCE BOND FEE. MOBIL WILL PROBABLY OPT FOR THE LATTER DECISION TO SALVAGE THE PERFORMANCE BOND FEE SOMETIME IN JANUARY 1976

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4. HOWE SUMMED UP MOBIL'S POSITION WITH THE COMMENT THAT HIS INTERNATIONAL COMPANY CANNOT IN THE FINAL ANALYSIS TURN ITS BACK ON VENEZUELA. THIS WAS THE RATIONALE USED IN ACCEPTING THE COMPENSATION TERMS, AND FOR NOT CONTESTING NATIONALIZATION IN THE VENEZUELAN COURTS. NEVERTHELESS, NO ONE IN MOBIL IS HAPPY WITH THE NATIONALIZATION PROCESS AND, ACCORDING TO HOWE, COMPANY OFFICIALS IN NEW YORK "CRINGE" WHENEVER THE NAME VENEZUELA IS MENTIONED. AS AN ASIDE, HOWE PREDICTED THAT OCCIDENTAL WILL NEVER RECEIVE COMPENSATION FOR ITS SERVICE CONTRACTS.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, NATIONALIZATION, CONTRACTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 DEC 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CARACA13189  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750441-0074  
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**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 CARACAS 10123  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 SEP 2003 by RowellE0>; APPROVED <30 OCT 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** STATUS OF MOBIL OIL SERVICE CONTRACT  
**TAGS:** ENRG, PFOR, VE, OCCIDENTAL, MOBIL  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006